Informal Sector Pensions
International Experiences

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Pensions Core Course

Source: Guven, M. 2019. Extending Pension Coverage to Informal Sector Workers in Africa. World Bank
Approaches to Informal Sector Pension Schemes

- Informal sector is a recognized challenge by both government entities as well as regulators and private sector stakeholders in the pension space
  - Social Security Institutes and national scheme efforts to reach informal sector pension workers
    - Establish channels and activities to enroll informal sector workers into their scheme
    - Establishing channels to re-introduce ex-formal sector workers
    - Establishing programs for to formalize individuals
  - Regulators and policy makers in different countries
    - Create enabling conditions
    - Understand how to support current efforts started by the private sector
    - Look for long term viability and adequacy of products/services
    - Some have championed informal sector workers efforts

Product innovation and technology is seen as key enablers across the region where flexible savings is combined with product bundling and use of mobile money platform as well as leverage of Foundational ID
 Kenya

- **Product – MBAO Pension Scheme**
  - Private sector run scheme directed to informal sector workers
  - Individuals can make contributions from 0.20 USD (minimum)
  - Use the National ID Number which is given to all citizens when they turn 18
  - Regulator played a key important role initially promoting the scheme in radio, tv and throughout the Jua Kali (informal workers association)
  - Assets professionally managed
  - Lumpsum withdrawal

- **Innovation**
  - Technology: Users make contributions through their mobile money account (MPESA & Airtel Money)
  - Product: Partial or short term withdrawal three years after first contribution (originally one year)
Kenya

• Challenges
  • Outreach, promotion of the scheme is required
  • Requires more product configurations and incentives to make the scheme more attractive
  • Administration is built on occupational scheme management
    • Does not provide adequate services informal sector workers need, up-to-date balances
    • Lacks transparency
  • Some regulatory changes can better support MBAO and informal sector pensions schemes to operate in larger scale
  • More promotion of the scheme is needed
  • Enrollment is still mixed between different sources (paper, electronic) and none of them are reliable enough
  • Withdrawal process is very complex
**Rwanda**

- **Product – Ejo Heza Scheme – Long Term Saving Scheme (LTSS)**
  - Established 2017, with RSSB as the Administrator
  - Enrolment for all Rwandans, and foreigners in Rwanda (+ underage). Contributions are voluntary in a savings account linked to National ID, and depend on their capacity and frequency of earning
  - The amount for the pension will depend personal saving and the investment returns
  - Government co-contribution and life insurance are based on eligibility conditions

<table>
<thead>
<tr>
<th>categories</th>
<th>Subscribers’ Eligibility minimum amount/year</th>
<th>Government co-contribution ceiling (3 years)</th>
<th>Life insurance cash benefit to the family in case of death</th>
<th>Insurance Funeral expense cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1 &amp; 2</td>
<td>RwF 15,000</td>
<td>RwF 18,000</td>
<td>RwF 1,000,000</td>
<td>RwF 250,000</td>
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<tr>
<td>Category 3</td>
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<td>RwF 250,000</td>
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<tr>
<td>Category 4</td>
<td>RwF 72,000</td>
<td>-</td>
<td>RwF 1,000,000</td>
<td>RwF 250,000</td>
</tr>
</tbody>
</table>

- Users can access up to 40% of the savings for housing, education or to serve as collateral for loans, and 25% for liquidity
Rwanda

• **Innovation**
  
  - National ID linked
  - Matching contribution
  - Life and Funeral expenses product bundling
  - Specialized administration platform for micro-pensions

• **Challenges**
  
  - Outreach, field agents and mobilization
  - Awareness
  - Financial literacy
  - Digital footprint, digital nature of the scheme requires scheme to be on at all times
Ghana

• **Product - Tier 3 Voluntary Pension Schemes**
  - Regulated under NPRA
  - SSNIT (The formal sector pension scheme) + privately run pension schemes, some with specific focus on informal sector
  - 50/50 split contribution short/term long term
  - Fiscal incentives for individuals making contributions
  - Contributions made voluntarily through different means, manual contribution collection and mobile money integration
  - Currently with over 300,000 members

• **Innovation**
  - Mobile money integration, some even go as far as marketing in MNOs menu
  - Flexible contributions and short term access
Ghana

- **Challenges**
  - Outreach and marketing costs and complexity
  - Contribution collection for Tier 3 is still costly
  - Enrollment processes are cumbersome
  - Short term withdrawal has tax implications for informal sector workers who do not currently pay taxes
  - Speed to reach scale for all multiple private and public sector players
Nigeria

Product – Micro Pension Plan

- Launched March 2019, a micro-pension scheme directed to informal workers
- Eligibility: 18+ years of age, self-employed
- Contributions are split 40% short term savings and 60% to long term savings
- Flexibility in contribution amounts and frequency (daily, weekly, monthly)
- Contributions can be made through mobile money, transfer, deposit or any other channel that the system provides, exclusively in Nigerian currency
- The contributions are managed as one same fund, management fees are charged based on income earned
- The micro pensions scheme allows users to migrate to mandatory contribution scheme if they start a job in the formal sector, but not in reverse
- Payment/withdrawals approved by PFA (regulator), as opposed to social security institute
  - 50 years old, or based on health grounds
  - The scheme allows access through programmed Withdrawal, Life Annuity or exit payouts and guarantees a Minimum Pension
Nigeria

- **Innovation**
  - Short term/Long term configuration
  - Multiple contribution channels, including mobile money
  - Funds flow into current mandatory contribution
  - Promotion through social media, unions, associations and professional bodies & NGOs

- **Challenges**
  - Low financial literacy
  - Low awareness about the Micro Pension Plan
  - Inadequate technology platform to support MPP and centralize operations
India

- **Product – APY Micro Pension Scheme**
  - Guaranteed pension of INR1000 to INR5000 per month (7.5% return guarantee), age at entry capped at 40 years
  - Monthly contributions fixed based on age of entry and target DB outcome
  - Contributions automatically “auto-debited” from member bank accounts (No mobile money) – monthly, quarterly or twice a year
  - Irregular contributions or gaps in persistency leads to frozen accounts and cancellation of the defined benefit
  - Underlying National Pension Scheme central recordkeeping
  - Change from manual to National ID-linked enrolment process supported voluntary enrolments in the 3 pilot locations at New Delhi, Himachal Pradesh and Andhra Pradesh
India

• **Innovation**
  - Enrolment and contribution collection automated reducing costs 97%+ and response times (enrolment process was reduced from 18 days to 3 minutes)
  - Biometric authentication with the use of National ID to identify the customer and online services to send digital enrolment forms, along with the picture obtained from NID
  - Leveraging National Pension Scheme infrastructure, including CRA

• **Challenges**
  - Inadequate commercial incentives for third-party distributors; Especially relative to insurance, and the conceptual and process overheads of NPS and APY
  - Inadequate public awareness about the scheme and associated fiscal incentives
  - Dedicated “mission office” for implementation management missing
  - Challenges with collecting contributions from the unbanked without the risk of fraud and errors
  - High probability of mis-selling (loans for contributions)
• **Product – ARCH program**
  
  • 4 inter-linked component program (health, pensions, micro-finance and training)
  
  • Pension component for the informal sector will be voluntary and managed on a defined contribution basis
  
  • Would incorporate flexibility to make larger or smaller contributions depending on participants stream and regularity of income
  
  • Use of Mobile money is being considered to facilitate payment of contributions
  
  • An innovative design to provide incentives for people to participate and pay contributions, linking to health, and potential other products
  
  • Leverage of associations for outreach
  
  • Built-in trust in the scheme, such that contributors believe they will receive a pension when they reach the eligibility age
• **Innovation**
  
  • Specialized IT platform for recordkeeping expected to manage individual’s contributions and historic data, up to date balance reporting in real-time, Mobile Money/Wallet Integration and personalized customer service
  
  • Online calculators historic based information with savings and/or pension/benefits projections
  
  • Analytics tools that allow insurance and/or micro-credit institutions to target groups of individuals around specific product configurations
  
• **Regional benefits platform in the pipeline**
Mexico

• Product
  • Voluntary savings to top up contributions, minimum of ~$3USD
  • Tax incentives for contributions
  • Flexible withdrawals, full amount after 6 months
  • No cost to individual, transaction costs covered by the pension fund
  • Behavioral experiments run, including new balance statement, SMS and mobile app reminders, punch cards, sales agent promotion

• Innovation
  • Use of convenience stores (over 15 thousand)
  • Use of a central switch to connect convenience stores across the country to all private pension fund administrators
  • New mobile app to facilitate auto-debit to bank account and credit card
  • Leveraging existing mandatory pension scheme administration and fund management
  • Use of appealing general public campaigns
Mexico

• Challenges
  • Outreach cost structure
  • Limited product configuration, regulatorily cannot bundle with other products
  • No incentive beyond tax break which only favors higher income bracket
  • Still requires user proactive action by individuals the first time
  • Short term availability